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Causes and Effects of Welfare Dependency

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CAUSES AND EFFECTS OF WELFARE DEPENDENCY

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The effect of welfare on work incentives has been a hotly debated topic since its inception in 1935. My research project examines the work incentive effects of an important component of the welfare system, namely Aid to Families with Dependent Children. I have done this by analyzing data drawn from a massive database of 12,800 youths called the National Longitudinal Survey of Youth.

I primarily use two theories for my analysis, the neoclassical theory of labor supply and the welfare-disincentive theory promoted by Charles Murray. These two theories allow me to formulate and test a number of hypotheses regarding the determinants of welfare dependency. The empirical part of the paper has two purposes. The first is to identify attitudes and background characteristics that are related to welfare dependency. The second purpose is to determine how AFDC dependency in the early 1980's effects labor force participation, poverty, and net income in the late 1980's.

For the most part, the results of my study reinforced my research hypotheses. For example, individuals who were AFDC dependent in the early 1980's experienced economic difficulties in the late 1980's such as, a higher incidence of poverty, lower net incomes, and fewer hours of labor supplied. The study also identified factors which make one more likely to become welfare dependent.